
CORPORATE GOVERNANCE AND THE QUALITY OF FINANCIAL STATEMENT OF SELECTED SMALL AND MEDIUM ENTERPRISES IN EDO STATE

By

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Abstract

This study examines the relationship between corporate governance mechanisms and the quality of financial statements of selected Small and Medium Enterprises (SMEs) in Edo State, Nigeria. The research focuses on specific corporate governance mechanisms, including board size, audit committee, board tenure, board gender, and board discipline. The study employs a survey research design, collecting data from a sample of 384 SMEs in Benin City, Edo State. Data analysis involves descriptive statistics and inferential statistics, including correlation and regression analysis. The findings of the study indicate a significant positive relationship between board size and the quality of financial statements. This suggests that larger boards may enhance the quality of financial reporting by providing greater oversight and expertise. Additionally, the study reveals a significant positive relationship between the audit committee and the quality of financial statements. This finding underscores the importance of effective audit committees in ensuring the accuracy and reliability of financial information. However, the study did not find significant relationships between board tenure, board gender, and board discipline with the quality of financial statements. These findings suggest that while board size and audit committee effectiveness are crucial for improving financial reporting quality, other corporate governance mechanisms may not have a significant impact on SMEs in the context of Edo State. The implications of these findings for policymakers, regulators, and practitioners are discussed. The study recommends that large board size be provided to enhance corporate governance practices and improve the quality of financial statements in SMEs.

Keywords: Corporate governance, Financial statement quality, Small and medium enterprises (SMEs), Edo State

Introduction

Corporate governance is a system of rules, practices, and processes by which a company is directed and controlled. It ensures accountability, transparency, and fairness in the operations of a company. Effective corporate governance is crucial for the sustainability and long-term success of any organization. Financial statements provide a snapshot of a company's financial health. High-quality financial statements are essential for informed decision-making by stakeholders, including investors, creditors, and regulators. Poor-quality financial statements can lead to misallocation of resources, market inefficiencies, and erosion of investor confidence. The quality of decisions that investors can make is largely dependent on the quality of information available to them. This information can be classified into quantitative financial and qualitative financial. However, financial information is of great significance, as it requires a reasonable level of skill to interpret and use. The published financial statements prepared by directors of limited liability companies and audited by external auditors remain the primary means of informing shareholders and other users about the financial performance, progress and position of the business. *Ceteris paribus*, audited financial statements should be credible, believable and reliable.

Financial scandals have recently become a widespread phenomenon around the world. Thus, the quality of financial reports has become an issue of investor concern (Brown, Falaschetti & Orlando, 2010). Major cases of financial and accounting fraud include those of Enron, Bernie Madoff, the Lehman Brothers, and Parmalat, as well as scandals from the countries of the world including Nigeria (Al-Matari et al., 2012). Confronting such frauds practiced by large, successful companies reflects the importance of disclosing high-quality financial reports by Directors and enforces the issuance of Corporate Governance mechanisms and codes (Firth, Fung, & Rui, 2007; Petra, 2007).

There are many Corporate Governance mechanisms that vary among countries, with differences between legal and business environments (Claessens and Yurtoglu, 2013). These mechanisms were designed to influence the performance of an organization, increase control, and consequently improve the quality of financial statements. (Petra, 2007). The impact of Corporate Governance mechanisms on financial statements has been widely studied in developed countries, concentrating on mechanisms applied to Boards of directors (Bradbury, Mak & Tan, 2006; Petra, 2007; Lin & Hwang, 2010), Audit committees (Felo, Krishnamurthy & Solieri, 2003; Lin and Hwang, 2010), Board Tenures, Board Gender of Board members and Board Discipline (Kelton and Yang, 2008). This study focused on features like composition, independence, tenure, expertise, size, gender and Board discipline and its relationship with the Quality of Financial Statements of organizations. This study is also timely in the sense that Nigeria economy is being opened for large foreign investments in line with its Vision 2030. Therefore, potential foreign investors would want to know more about the Nigeria Corporate Governance practice in relation to board governance and quality of financial statements.

A vast number of research papers have relied on earnings management to measure quality of financial statement (Akeju & Babatunde, 2017; Abu Siam, Idris & Nassar, 2017; Shaheed & AlEisa, 2018). Islam, Ali & Ahmad (2011) contend that most Directors tend to exhibit opportunistic behaviour to benefit themselves economically, making accounting choices in their own interest. According to McKee (2005), earnings management is the opportunistic behaviour that Directors tend to practice by exploiting their knowledge and experience in accounting techniques to creatively manipulate data in the disclosed financial statements to show a positive financial position. Auditors and Directors are often at cross purposes as to

the actual meaning of the quality of financial statements as it varies depending on the person and the purpose of using reports.

In a previous study in Biddle, Hilary & Verdi (2009) quality financial statements was defined as the correctness and exactness of information presented in the annual disclosed reports that reflect an organization's performance, particularly in terms of the expected cash flows and informing shareholders and investors. However, different researchers use different measurements for quality financial statements, depending on their area of expertise and experience. Similarly, many other researchers have relied on earnings management which is in accounting practice, deliberately making financial statements look better which is done to dress up a firm's financial statements / reports or intentionally influencing the process of financial reporting to obtain some private gains, restatements, and fraud to determine the level of quality financial statements (Cohen, Krishnamoorthy and Wright, 2004). In corporate organizations, major stakeholders who have roles to play in determining the success or failure of its existence they include among other members of the Board, Audit committee, management and staff of the organizations. Also, the quality of financial statements may be affected by those whose decisions cannot be wished away in the organizations.

Statement of the problem

Despite the significance of SMEs to the Nigerian economy, there is a dearth of research on the relationship between corporate governance and financial statement quality in this sector, particularly in Edo State. This research aims to fill this gap by examining the extent to which corporate governance practices influence the quality of financial statements of SMEs in Edo State. Frauds have been major challenges of financial and accounting systems world over, including those of highly rated industries such as Enron, Bernie Madoff, the Lehman Brothers, and Parmalat, and also affecting third world such as Nigeria (Al-Matari et al., 2012). To deal with such frauds practiced by large, successful companies reflects the importance of disclosing high quality financial reports by Directors and enforces the issuance of Corporate Governance mechanisms and codes (Firth, Fung, & Rui, 2007; Petra, 2007). Some of these challenges are attributable to large numbers of Board members of the organization who do not have anything to do with the organization either by way of experience or qualifications or even overstayed members of the Board nominated as a result of relationship to investors cum owners of the organizations. When composition of the Board also skewed towards one gender when indeed there are other well meaning professionals who could fit into such positions of opposite sex could be a problem in the quality of financial statements as each Board member is expected to play a key role in the organization. In order to address these problems, the implementation of Corporate Governance regulations as an antidote is introduced. According to Arabsalehi and Ziaee (2010), the code of Corporate Governance in Nigeria in 2003, is regarded as the standard in the corporate society in Nigeria.

Objectives of the Study

The main objective of this study is to determine how corporate governance impact on quality of financial statements in Benin-City, Edo State, Nigeria. The specific objectives are:

- i. To determine the relationship between Board Size and quality of Financial Statements in selected organizations in Benin-City, Edo State.
- ii. To evaluate how Audit Committee

relate to the quality of Financial Statements in selected organizations in Benin-City, Edo State, Nigeria;

- iii. To determine the relationship between Board Tenure and quality of Financial Statements of selected organizations in Benin-City, Edo State, Nigeria;
- iv. To assess how Board Gender affects the quality of Financial Statements of selected organizations in Benin-City, Edo State, Nigeria;
- v. To evaluate the impact of Board Discipline on quality of Financial Statements in selected organizations in Benin-City, Edo State, Nigeria.

Research Questions

The following research questions were the basis for the formulated hypothesis in this study:

- i. To what extent does the Board Size affect the quality of Financial Statements in selected organizations in Benin-City, Edo State, Nigeria?;
- ii. What is the relationship between Audit Committee and quality of Financial Statements in selected organizations in Benin-City, Edo State, Nigeria?;
- iii. What is the relationship between the Board Tenure and quality of Financial Statements of selected organizations in Benin-City, Edo State, Nigeria?
- iv. To what extent does Board Gender affect the quality of Financial Statements in selected organizations in Benin-City, Edo State, Nigeria?
- v. How does Board Discipline relate to the quality of Financial Statements of selected organizations in Benin-City, Edo State, Nigeria?

Research Hypotheses

To provide an acceptable and scientific response to the formulated research questions above, the following null hypothesis were developed:

H₀₁: The Board Size of an organization does not affect the quality of Financial Statements of selected organizations in Benin-City, Edo State, Nigeria;

H₀₂: There is no relationship between Audit Committee and quality of Financial Statements of selected organizations in Benin-City, Edo State, Nigeria;

H₀₃: There is no relationship between Board Tenure and quality of Financial Statements of selected organizations in Benin-City, Edo State, Nigeria;

H₀₄: The Board Gender does not affect the quality of Financial Statements of selected organizations in Benin-City, Edo State, Nigeria;

H₀₅: The Board Discipline does not relate to the quality of Financial Statements of selected organizations in Benin-City, Edo State, Nigeria.

Scope of the study

The research work is on the corporate governance and quality of Financial Statements in Benin-City, Edo State: the population from among which questionnaires was distributed for responses comprise the staffs and management of the selected business organizations in Benin-City, Edo State. The respondents were selected randomly from among the selected organizations by convenience methods. The results of the study will make good for organizations selected as well as those not selected but of similar status with corporate outlook, so also to government of Edo State especially corporate organizations within the state government which also can be replicated to other states of the federation of Nigeria.

Literature Review

Conceptual Review

Quality of Financial Statements

In Financial Reporting quality according to Jonas and Blanchet (2000), auditors and managers are not in agreement about the exact meaning of the quality of financial reporting, as it varies depending on the person and the purpose of using the reports. In a later study, Biddle, Hilary & Verdi (2009) defined quality Financial Reporting as the correctness and exactness of information presented in the annual reports that reflect a corporation's performance, particularly in terms of the expected cash flows and informing equity to investors. However, different researchers use different measurements of quality Financial Reporting, depending on their area of expertise and their experience.

Many previous researchers have relied on earnings management, financial restatements, and fraud to determine the level of quality Financial Reporting (Cohen, Krishnamoorthy and Wright, 2004). In addition, Cohen (2003) stated that quality Financial Reporting might be sorted out from a variety of perspectives, including future performance predictability, the persistence of earnings, earnings variability, and the relationship between cash, income, and accruals. A vast number of research papers have relied on earnings management to measure quality financial statements (Miko & Kamardin, 2015; Akeju & Babatunde, 2017; Abu Siam, Idris & Nassar, 2017; Shaheed & Al-Eisa, 2018). Islam, Ali & Ahmad (2011) contend that most managers tend to exhibit opportunistic behaviour to benefit themselves economically, making accounting choices that are in their own interest.

Board Size

There is no consensus in the literature as regards the relationship between the size of the board and board effectiveness. The size of the board is defined as the total number of directors (both executive and non-executive) on the board. Dalton, *et al.* (1999) reported that large boards motivate better environmental links and more expertise. However, Jensen (1993), Eisenberg, *et al.* (1998) and Yermack (1996) find that an over-crowded board is likely to be an ineffective board. What is overcrowded is definitely relative as small board size to a big corporation may be inadequate just like over bloated board to small size organization may be like killing an ant with a sledge hammer.

It is believed that a director with a sizeable ownership in a firm is more likely to question and challenge management proposal because his or her interest is at stake (Mace, 1986) if the proposal will not be in the best interest of the organization. Jensen (1993) argues that encouraging outside directors to hold a substantial ownership position in a firm provides them with better incentive to monitor management closely and this suggests that credibility is positively related to outside directors' ownership.

However, from the perspective of agency theory, it can be argued that agency problems are easier tackled by larger boards because of the presence of greater number of people evaluating and observing management decisions (Bugshan, 2005). Monks and Minnow (1995) in a related study proved that larger boards have the capability to commit more time and effort in managing the company's activities, while smaller boards commit less effort and time in overseeing the activities of the management. Klein (2002) shared a similar view on this topic by proposing that board monitoring is done more effectively by larger boards due to the inherent ability to share the responsibility amidst a larger sum of people. Yu (2008)

acknowledged that larger boards have a strong relationship with lesser levels of earnings management. Yermack (1996) and Byard, Li, and Weintrop (2006) argued large boards confirm the value relevance of financial reports. Ezat and ElMasry (2008) opined that the variability of the board's membership together with their desire to reveal more timely financial information will attract the interest of more investors. This suggests that the larger the board, the greater the desire for more timely disclosures. In contrast to these findings, Jensen (1993), Yermack (1996) and Eisenberg, Sundgren, and Wells (1998) all found out that an "overcrowded" or "large" boards are most likely to be ineffective in carrying out its oversight function over a firm. What is "overcrowded" is, however, relative. According to Jensen (1993), smaller boards are most likely to give room for efficient and effective communication and coordination between the board and the management.

Audit committee

Financial reporting's reliability has been called into question since the turn of the last decade, when companies continued to go bankrupt shortly after releasing their appetizing, pretty profit and loss statements. Corporate governance procedures like the audit committee had to be revised because of the need to strengthen regulations and standards. Due to high-profile accounting scandals, such as those at Enron (2001), Worldcom (2002), and Cadbury Nigeria PLC (2007), the need for an audit committee has been apparent on a global scale. Due to the fact that the Big 4 (Deloitte, Ernst & Young, KPMG, and Price waterhouse Coopers) of the auditing practice were involved in the scandals, it is necessary to conduct a more thorough examination of the situation of financial reporting. The lack of a competent audit committee may have contributed to these crises. Because of this, regulators and other stakeholders expressed a great deal of concern about the possible causes of subpar monetary reportage. Audit committees need to be well-structured in order to prevent a loss of confidence in the capital market. Regulators have implemented a number of measures to safeguard the integrity of financial statements, including an audit committee. Therefore, the importance of the audit committee's function in ensuring that financial statements are accurate cannot be overstated. This then sufficiently affects the quality of the financial statements.

In accounting, the size of an audit committee is defined as the total number of individuals who serve as members of the audit committee for a given period of time. A sufficient number of people should be included on the audit committee in order to successfully carry out and coordinate the massive obligations assigned to them. Firms having a large number of members on an audit committee are more likely to provide quality audit reports on time, according to research by Mohammed and colleagues (2010).

Board Demographics Characteristics (Gender, Tenure, Experience, Age, Discipline) In the work of Hambrick and Mason (1984) they argue that Board demographic characteristics such as experience, age, gender, discipline and tenure affect the values and cognitive bases of top management and make them choose different choices, especially in complex situations, eventually producing different organizational outcomes; this is especially so among Board members. Bertrand and Schoar (2003) develop an innovative design to provide evidence on the notion that members of the boards' personal characteristics influence investment decision or financial decision after controlling for firms and time fixed effects. They assert that the older board members are associated with certain conservative disclosure style; and board members of discipline from finance and accounting display more precise disclosure style. Also, Dyreng et al. (2010) suggest that members' personal fixed effects are related to the tax avoidance. Tenure is one of the important topics of top management characteristics because it is related with distinct patterns of decision makers' cognitive

process, attention and final decision (Allen and Cohen 1969). Wiersema and Bantel 1992). Hambrick and Fukutomi (1991) suggest that the board members of these characteristics are generally engaged in complicated, ambiguous and information overloaded situation. That is, they operate with finite model, or paradigm in spite of applying all of the information. The long-tenured Directors are fixated on the paradigm, which make it difficult for them to try to pay a great deal of attention to outside source of information. Barker and Mueller (2002) show conservative style of long-tenured directors. They argue that long-tenured Chief Executives may have little interest in changing innovative strategy through higher R&D investment, while they prefer stability and efficiency instead (Grimm and Smith 1991), there will always be an argument that we have been doing it a particular way and hence they worked for us. Wiersema and Bantel (1992) study the association between average tenure of a director and change in corporate strategy. They suggest that the groups in which the members have been together long time tend to decrease the possibility of communication because the group members anticipate to understand the view point of each other (Katz 1982). In addition, long tenure increases understanding of organizational policies and procedures and make the members of organization reluctant to change the status quo. Also, long-tenured members of directors are likely to decrease communication with outside of organization which may be a threat to change their behavior patterns. (Allen and Cohen 1969). In summary, the previous studies show that the tenure of directors or top management team members affect managerial decision because the tenure is closely related to the task knowledge and it affects differently on the cognitive process of the individual persons over time and hence the quality of financial statements generated.

Corporate Governance

The Concept of Corporate Governance remains a key concept that has enjoyed a great deal of public interest; this is due to the economic and financial implication it has for the well-being of companies and the society in general (Solabomi & Uwuigbe, 2013; Uwuigbe, Daramola, & Anjolaoluwa, 2014). The World Bank report (2002) described the concept of corporate governance as “the set of rules that influence expectations about the use of control over resources of a firm”. Sloan (2002) opined that the first source of true and independent financial information about a firm’s performance is through its financial reports; this makes financial reporting a focal point of attraction to managers as well as the rest key stakeholders. Basically, corporate governance ensures that shareholders, Directors and other key stakeholders in an organization discharge their responsibilities within the framework of transparency, accountability, and ethics. According to Kachouri, Ben Saad, and Jarboui (2015), the board of directors is the key control mechanism of any organization. Prior studies (Singh, Mathur, & Gleason, 2004; Yermack, 1996) have come to the conclusion that the structure of the Board of Directors has influence on the timely and quality of financial reports.

Theoretical Review

This study adopts the agency theory as a framework for this research because it gives insight into the agent behavior and the agent-principal relationship. Management (agent) in playing their role of disclosing financial information to the shareholders (owners) and other stakeholders may give misleading information mainly due to their selfish gains. The issue of corporate governance arose from the activities of managers or agents in sharp practices, which usually are not in the principals (owners of the business) interest. Over time, situations had risen where the Directors do not take action in shareholders’ best interest. This problem forms the core issue which agency theory addresses. This problem arises because of the

disassociation of the control of a firm from ownership of such firm, hence the directors control the firm while the shareholders are the owners. This arrangement invariably gives birth to a conflict of interest amongst ownership (shareholders) and control (directors). This conflict of interest is the foremost problem that the principle of corporate governance intends to address. Companies should, therefore, seek to limit this principal-agent problem through a solid and effective corporate governance policy. Corporate governance through the corporate governance mechanisms can be used to check and monitor the activities and operations of the agent, thereby ensuring that they are in line with the principals' interests. This enables the owners to overcome the issues of lack of credible information. This study focused on corporate governance mechanisms like board size, ownership structure, Board independence Foreign Expatriates on the Board, and their various effects on the timeliness of financial reports.

Empirical Review

Nigerian food and beverage companies were studied by Umobong and Ibanichuka (2017), who looked at the impact of audit committee qualities on financial reporting quality between 2011 and 2015. Audit committee size was found to have a negative and minor impact on financial statements quality in the selected companies. A similar study by Aderemi, Osarumwense et al. (2016) investigated the audit committee attribute and financial reporting quality of Nigerian listed companies and found that the audit committee size negatively and insignificantly affected the financial reporting quality of the sampled firms. Similarly, the study by Madawaki and Amran (2014), in contrast to the previous findings, shows a positive and negligible association between the size of the audit committee and the quality of financial reporting. The findings of Ojeka, Iyoha, and Asaolu (2015) show that the size of the audit committee has a considerable detrimental impact on financial reporting visa vice the quality of financial statements generated. Studies on the impact of audit committee size on financial reporting quality have yielded conflicting results, as evidenced by the literature review presented above. As a result, this study does not wish to predict any size for audit committee size, rather we hypothesized that there is a significant effect between audit committee and the quality of financial statements as contained in the null hypothesis 2.

In the study of Board of Directors and quality of Financial Reports of quoted companies, the study contributes practically as it brings implications of board on financial reporting quality. For example, financial reporting quality is higher when the size of the board of directors is increased. However, board tenure and expertise cause poor financial reporting quality. We failed to find evidence that board independence, meetings and gender improve quality of financial report. It fills void that may arises in the implementation and execution of board of directors' roles and responsibilities in enhancing financial statements quality. Next, the study empirically contributes to the existing literature especially in the area of using multiple dependent variables to a single corporate governance mechanism (board characteristics).

Methodology

The research design was the survey research design. The population of the study was drawn from the 2017 National Survey of MSMEs which covered enterprises in Nigeria employing below 200 persons (i.e. micro, small and medium enterprises - MSMEs), and was conducted in all the 36 States of the Federation and FCT. The total number of MSMEs as at December, 2017 stood at 41,543,028, with components as follows, viz: micro enterprises - MEs: 41,469,947 (or 99.8 percent), small and medium enterprises - SMEs: 73,081 (or 0.2 percent). A

sample size of 384 was determined using the Cochran formula for analysis. In order to reduce any bias that might result from surveying members of the SMEs, improper weighting was used. Also, proportional allocations were used in selecting a given firm based on the total estimate in a sector in each LGA. The proportion of direct investment found in the different LGAs was used to develop a model for each LGA for each sector of the economy. On average, one randomly selected SME was used to represent the sector of each of the sixteen LGAs in the state. A minimum of Cronbach alpha value of 0.702 was obtained from the pilot study conducted showing the reliability of the research instrument, while the instrument was subjected to content validity, being expert opinion validity as used in (Osuagwu, 2004). The analysis of the study was conducted using descriptive and inferential statistics done through correlation and regression analysis. Specifically; Pearson Product Moment Correlation was used to measure the relationship between the study variables.

Analysis, Results and Discussion of findings.

The table below represents the responses from the respondents.

Table 1. Respondents' responses to Board Size.

S/N	Items	SA	A	D	SD
1	A large board size in an organization will enhance the quality of financial statements generated	242	77	54	11
		63%	20%	14%	3%
2	If the size of the board of an organization is small there will be reduction in complexity, then facilitate effective control,	269	58	30	27
		70%	15%	8%	7%
3	A larger board size can lead to prolong discussions and decision making process if the organization is not big, as every directors of different opinion could slow down process of decision making then reduces the quality of financial reports	230	108	46	0
		60%	28%	12%	0
4	As the number of board members increases effective communication becomes trickier hence affecting the quality of financial reporting in an organization	242	62	80	15
		63%	16%	21%	4%

Source: Field Survey, 2024

Table 1 shows that over 80% of the respondents agrees that a large board size in an organization will enhance the quality of financial statements generated. Similarly, from the data collected from the respondents 85% of the participated respondents agreed that if the size of the board of an organization is small there will be reduction in complexity, hence recommend not too large board size. Also, about 88% of the respondents agreed that a larger board size can lead to prolong discussions and decision making process; hence hurry to take decision then reduces the quality of financial reports. Finally, the result of the data collected from the respondents also show that about 79% agreed that as the number of board members increases effective communication becomes trickier hence affecting the quality of financial reporting in an organization in selected corporate organization in Benin-City, Edo State.

Table 2: Pearson Product Correlation for Board Size and Quality of Financial Statement.

		Board Size	Quality of financial statement
Board Size	Pearson Correlation	1	.504**
	Sig. (2-tailed)		.000
	N	384	384
Quality of Financial Statement	Pearson Correlation	.504**	1
	Sig. (2-tailed)	.000	
	N	384	384

** . Correlation is significant at the 0.01 level (2-tailed).

Table 2 shows significant relationship between the board size and quality of financial statement in selected organizations in Benin-City, Edo State. The correlation coefficient (r) board size is .504 and the significance level is 0.01 ($p < .01$). Hence the Table 2 further shows that the p-value which is 0.000 is less than 0.01. Therefore by the rule the null hypothesis is hereby rejected while the alternative is accepted. This result indicates that there is a significant relationship between board size and quality of financial statements of the selected organizations in Benin-City, Edo State, Nigeria.

The interpretation of Pearson Correlation in this section

This section is to see how the independent sub variables relate to the dependent variable that is how board size relates to quality of financial statements. The r value of Pearson correlation is from -1 to +1, the closer it is to 1 the higher the strength of the relationship. For example 0.3 to 0.5 is moderately correlated meaning there is a relationship between the variables but moderate. Hence since the r value of board size and quality of financial statements is 0.504 shows a strong correlated relationship.

Table 3. Responses to Audit Committee and Quality of Financial Statement

S/N	Items	SA	A	D	SD
1	The audit committee members often lack awareness of their accountability for ensuring the effectiveness and efficiency of internal auditing hence compromise quality financial reporting	311	19	54	0
		81%	5%	14%	0
2	Executives Directors may often perceived audit committee as threat to their authority hence not willing to fully cooperate with it and then affect the quality of financial statement generated	304	46	15	19
		79%	12%	4%	5%
3	Audit committee members may not be abreast with the current development and education in auditing to keep up to date on current issues this after the quality of financial reports generated in an organization.	294	60	19	11
		76%	15%	5%	3%
4	Audit committee members who were appointed as a result of who they know or relationship will not generate quality financial statements at the end of their assignment	330 8%	46 12%	8 2%	0 0%

Source: Field Survey 2024

Table 3 shows that more than 80% of the respondents who participated in the research agreed that the audit committee members often lack awareness of their accountability for ensuring the effectiveness and efficiency of internal auditing hence compromise quality financial reporting in Benin-City in Edo State. Similarly, more than 90% of the respondents agreed that Executives Directors may often perceived audit committee as threat to their authority hence not willing to fully cooperate with it and then affect the quality of financial statement generated. Also, over 85% of the respondents who participated in this study agreed that Audit committee members may not be abreast with the current development and education in auditing to keep up to date on current issues this after the quality of financial reports generated in an organization. Finally, 98% of the respondents in this study agreed that Audit committee members who were appointed as a result of who they know or relationship will not generate quality financial statements at the end of their assignment in the selected organizations in Benin-City.

Table 4: Pearson Product Correlation for Audit Committee

		Audit Committee	Quality financial Statement
Audit Committee	Pearson Correlation	1	.477**
	Sig. (2-tailed)		.000
	N	384	384
Quality of Financial statement	Pearson Correlation		1
	Sig. (2-tailed)	.477**	
	N	.000 384	384

Table 4 shows there is significant relationship between audit committee in selected organization and quality of financial statements. The **. Correlation is significant at the 0.01 level (2-tailed). Correlation coefficient (r) of audit committee of selected organizations is .477 and at the significance level of 0.01 and $p < .01$. The Table 4 further shows that the p-value being 0.000 and less than 0.01. By the rule the null hypothesis was therefore rejected and alternative accepted concluding that audit committee has a positive and significant relationship with quality of financial statement in the selected organizations in Benin-City, Edo State.

The interpretation of Pearson Correlation in this section

This section is meant to interpret the Table 4 above to see how the independent sub variables relate to the dependent variable that is how audit committee relates to quality of financial statements. The r value of Pearson correlation is from -1 to +1, the closer it is to 1 the higher the strength of the relationship. For example 0.3 to 0.5 is moderately correlated meaning there is a relationship between the variables but moderate. Hence since the r value of audit committee and quality of financial statement is 0.477 shows a somewhat highly moderate correlated relationship between the variables.

Table 5: Respondents responses on Board Tenure

S/N	Items	SA	A	D	SD
1	When board members stayed too long in an organization could lead to multitude of problems including business failing to meet objectives and poor management of the organization.	234	81	58	11
		60%	21%	15%	3%
2	Some board members if appointed as a result of imposition may be difficult to lay off even if non effective, this then affect the quality of financial reporting.	276	46	35	27
		71%	12%	9%	7%
3	Too short duration of board appointments can lead to policy summersault due to frequent changes in board composition and hence low quality financial reporting.	292	69	23	0
		76%	18%	6%	0
4	If a board member stays too long, such member can grow to become a dictator and untouchable hence quality of financial statements compromise.	238	11	27	0
		62%	3%	7%	0

Source: Field Survey, 2024

Table 5 shows that over 80% of the respondents agree that when board members stayed too long in an organization could lead to multitude of problems including business failing to meet objectives and poor management of the organization. Similarly, from the data collected from the respondents, it show that more than 80% of the participated respondents agreed that some board members if appointed as a result of imposition may be difficult to lay off even if non effective, this then affect the quality of financial reporting. Also, over 90% of the respondents agreed that too short duration of board appointments can lead to policy summersault due to frequent changes in board composition with different objectives and hence low quality financial reporting. Finally, the result of the data collected from the respondents also show that over 90% agreed that if a board member stay too long, such member can grow to become a dictator and untouchable hence quality of financial statements could be compromised in the companies selected for this study in Benin-City, Edo State.

Table 6: Pearson Product Correlation for Board Tenure.

		Board Tenure	Quality of financial statement
Board Tenure	Pearson Correlation	1	.432**
	Sig. (2-tailed)		.000
	N	384	384
Quality of financial Statement	Pearson Correlation	.432**	1
	Sig. (2-tailed)	.000	
	N	384	384

** . Correlation is significant at the 0.01 level (2-tailed).

Table 6 shows significant relationship between board tenure and quality of financial statements in selected organizations in Benin-City, Edo State. The correlation coefficient (r) board tenure is .432 at the significance level of 0.01 ($p < .01$). From the Table 6 the p-value is 0.000 which is less than 0.01. Therefore by the rule the null hypothesis is hereby rejected while the alternative is accepted. This result indicates that indeed there is a significant relationship between board tenure and quality of financial statements of the selected organizations in Benin-City, Edo State, Nigeria.

The interpretation of Pearson Correlation in this section

This section simply interprets Table 6 that is to see how the independent sub variables relate to the dependent variable which is how board tenure relates to quality of financial statements. The r value of Pearson correlation is from -1 to +1, the closer it is to 1 the higher the strength of the relationship. For example 0.3 to 0.5 is moderately correlated meaning there is a relationship between the variables but moderate. Hence since the r value of board tenure and quality of financial statements is 0.491 shows the relationship tends toward strong correlated relationship.

Table 7. Responses to Board Gender

S/N	Items	SA	A	D	SD
1	Gender composition of the board of directors can affect the quality of its monitoring role and thus financial performance of the organization.	322	62	0	0
		84%	16%	0	0
2	There is need to balance the appointment of board members in terms of gender diversity to enhance its operational capability and hence improve in the quality of financial reporting based on the nature of the organization.	342	27	15	0
		89%	7%	4%	0
3	A one sided gender composition of the board may affect negatively the performance of an organization and by extension the quality of financial reporting to be generated by an organization	311 81%	35 9%	38 10%	0 0
4	A study indicated that female board directorship is negatively associated with an organization risk hence showing the significance role of female board directors in an organization.	311	38	35	0
		81%	10%	9%	0

Source: Field Survey, 2024

Table 7 shows that all the participated respondents amounting to 100% agreed that Gender composition of the board of directors can affect the quality of its monitoring role and thus financial performance of the organization in organizations selected for this research in Benin City in Edo State. Similarly, over 90% of the respondents agreed that there is need to balance the appointment of board members in terms of gender diversity to enhance its operational capability and hence improve in the quality of financial reporting based on the nature of the organization. Also, about 90% of the respondents who participated in this study agreed that a one sided gender composition of the board may affect negatively the performance of an organization and by extension the quality of financial reporting to be generated by an organization in the selected organizations for this study in Benin-City, Edo State, Nigeria. Finally, over 90% of the respondents agreed that a study indicated that female board directorship is negatively associated with an organization risk hence showing the significance role of female board directors in an organization.

Table 8: Pearson Product Correlation for Board Gender

		Board Gender	Quality of financial statements
Board Gender	Pearson Correlation	1	.411**
	Sig. (2-tailed)		.000
	N	384	384
Quality of financial Statements	Pearson Correlation	.411**	1
	Sig. (2-tailed)	.000	
	N	384	384

Table 8 shows significant relationship between board gender and quality of financial statements in selected organizations in Benin-City,**. Correlation is significant at the 0.01 level (2-tailed).Edo State.

The correlation coefficient (r) board gender is .411 at the significance level of 0.01 ($p < .01$). From the Table 8 the p-value is 0.000 which is less than 0.01. Therefore by the rule the null hypothesis is hereby rejected while the alternative is accepted. This result indicates that there is a significant relationship between board gender and quality of financial statements of the selected organizations in Benin-City, Edo State, Nigeria.

The interpretation of Pearson Correlation in this section

This section simply interprets Table 8 that is to see how the independent sub variables relate to the dependent variable which is how board gender relates to quality of financial statements. The r value of Pearson correlation is from -1 to +1, the closer it is to 1 the higher the strength of the relationship. For example 0.3 to 0.5 is moderately correlated meaning there is a relationship between the variables but moderate. Hence since the r value of board gender and quality of financial statement is 0.411 shows the relationship is significant and tending towards strong correlated relationship.

Table 9: Respondents' responses to Board Discipline

S/N	Items	SA	A	D	SD
1	Mediocre board members will not produce quality financial statements in an organization	280	92	12	0
		73%	24%	3%	0
2	Organization board members must have a good understanding and a fair knowledge of the core operations of the organization as the policy makers to enhance the quality of its financial reporting.	292	54	30	8
		76%	14%	7%	2%
3	Continuous training and awareness creation of an organization for its board to be abreast with current issues will enhance the corporate governance and quality of financial reporting	273	49	62	0
		71%	12%	16%	0
4	It is important that board members be well skillful with leadership, governance and operational knowledge of finance, marketing and selling to improve the corporate governance of the organization.	326	35	23	0
		85%	9%	6%	0%

Source: Field Survey, 2024

Table 9 shows that over 95% of the respondents agree that mediocre board members will not produce quality financial statements in an organization. Similarly, from the data collected from the respondents, 90% of the participated respondents agreed that organization board members must have a good understanding and a fair knowledge of the core operations of the organization as the policy makers to enhance the quality of its financial reporting. Also, over 80% of the respondents agreed that continuous training and awareness creation of an organization for its board to be abreast with current issues will enhance the corporate governance and quality of financial reporting. Finally, the result of the data collected from the respondents also show that over 90% of the participated respondents agreed that it is important that board members be well skillful with leadership, governance and operational knowledge of finance, marketing and selling to improve the corporate governance of the organization they manage in the selected organizations in Benin-City, Edo State.

Table 10: Pearson Product Correlation for Board Discipline.

		Board Discipline	Quality of financial statement
Board Discipline	Pearson Correlation	1	.423**
	Sig. (2-tailed)		.000
	N	384	384
Quality of financial statement	Pearson correlation Sig. (2-tailed)	.423**	1
		.000	
	N	384	384

**. Correlation is significant at the 0.01 level (2-tailed).

Table 10 shows significant relationship between board discipline and quality of financial statement in selected organizations in Benin-City, Edo State. The correlation coefficient (r) board discipline is .423 at the significance level of 0.01 ($p < .01$). From the Table 10 the p-value is 0.000 which is less than 0.01. Therefore by the rule the null hypothesis is hereby rejected while the alternative is accepted. This result indicates that there is a significant relationship between board discipline and quality of financial statement of the selected organizations in Benin-City, Edo State, Nigeria.

The interpretation of Result

This section interprets Table 10 that is to see how the independent sub variables relate to the dependent variable which is how board discipline relates to quality of financial statements. The r value of Pearson correlation is from -1 to +1, the closer it is to 1 the higher the strength of the relationship. For example 0.3 to 0.5 is moderately correlated meaning there is a relationship between the variables but moderate. Hence since the r value of board discipline and quality of financial statement is 0.423 shows the relationship tending towards a strong correlated relationship.

Conclusion

The summary reports are often very useful to the extent that they provide an overall picture of corporate governance, however, board size which constitute the number of members of board of Directors are an important component in corporate governance in determining its effectiveness and efficiency at meeting the various of objectives of the organization. Audit committee are an important arm of corporate governance as it relates to fulfilling an oversight function of governance in relation to financial reporting, internal control structure, risk management systems and internal and external audit functions as well as ethical accountability in an organization. Board tenure also played an important role in corporate governance since board members cannot be left on in perpetuity. It was also observed that board gender played a key role in corporate governance as there is the need to balance gender diversity in the composition of the board of any corporate organization. Mediocrity has no place in the board of any corporate organization but putting round pegs in round whole.

Recommendations

Here it is first recommended the expansion of the scope of this research to cover additional organizations for a more generalized usage; similarly other regions of this country should be considered in the expansion, and:

- It is hereby recommended that a large board size in an organization to be considered to enhance the quality of financial statements to be generated depending on the size of the organization.
- It is hereby recommended that a larger board size be avoided as it can lead to prolong discussions and decision-making process if the organization is not big, as every directors of different opinion would want to be heard hence slow down process of decision making and reducing the quality of financial reports;
- It is hereby recommended that organization board members must have a good understanding and a fair knowledge of the core operations of the organization as the policy makers to enhance the quality of its financial reporting;

- It is recommended that continuous training and awareness creation of an organization for its board members to be abreast with current issues that impact on the organization be done to enhance the corporate governance and quality of financial reporting.
- It is hereby recommended that a one sided gender composition of the board be avoided to reduce the negative effect of such in the organization;
- It is hereby recommended that Executives Directors be well abreast with the responsibilities of audit committee to avoid its perception of threat to their authority so they can fully cooperate with it and then impact on the quality of financial statement generated;
- Avoid being Board members by imposition as they may be difficult to lay off even if non effective, as this may affect the quality of financial reporting.

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